

September 26, 2003

Honorable Mayor and Members
Of the City Commission
City of Birmingham
151 Martin
Birmingham, MI 48012-3001

Dear Mayor and Commission Members:

We recently completed the audit of the financial statements of the City of Birmingham, Michigan for the year ended June 30, 2003. In addition to the audit report, we offer the following comments for your consideration:

New Financial Statement Format

You will notice a very different look to the financial statements this year. While getting used to this new format, we hope that the new Management's Discussion and Analysis section is helpful in providing you with a quick overview of the City's finances. Preparing for this new reporting model has meant a significant amount of work for the City's finance department. The City staff has done an excellent job of preparing the necessary schedules as well as assisting and cooperating with the audit work being done on those schedules.

Although there are many differences with this new reporting model, the major additions are as follows:

- *Management Discussion and Analysis:* Management is now required to give an overview of the City's overall financial position and results of operations.
- *Government-wide Financial Statements:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original budget.

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

State Shared Revenue

The City has and will continue to feel the effects of the slowdown in the State's economy. State shared revenue accounts for approximately 9% of the City's total General Fund revenue. Despite a slow growth in the State's sales tax, the State is experiencing budget difficulties and has reduced revenue sharing payments to local units. Currently, the approved budget for the State's 2003/2004 fiscal year includes another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels.

The State held a revenue estimating conference on October 14, 2003, where it was announced that the projected shortfall for 2003/04 was \$900 million. This information could lead to significant further reductions in the statutory portion of revenue sharing allocated to local units of government. We recommend that the City continue to carefully monitor its 2003/2004 fiscal year budget in light of these developments. We will continue to watch the situation and update the City as developments occur.

Telecommunications Act Revenue

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to new Telecommunications Act. The City "opted in" and received the first payment from the METRO Authority this summer. All local units recognized by the METRO Authority as having "opted in" are listed on their website (www.michigan.gov/metro). The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Checks for the second payment will be distributed in the Spring of 2004.

State To Fund Personal Property Tax Audits

The State's fiscal year 2003/2004 General Government budget approved by the Legislature and the Governor contains an additional appropriation (\$7 million) for personal property tax audits. The Michigan Department of Treasury is responsible for developing the guidelines of the program.

New Homestead Audit Program

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming an homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

Protecting the City from Fraud

Due to the continued sophistication of devices such as scanners and color copiers, the risk of check fraud is growing. Annual losses due to check fraud in the U.S. are estimated to be beyond \$12 billion. With these devices, dishonest individuals can take a valid check, a canceled check, or a voided check and either duplicate or modify the check for fraudulent use. Making matters worse, where banks once protected their customers for this type of check fraud, sentiment is beginning to change, where ultimately it may be the customer's responsibility to cover fraudulent checks.

To combat this problem, many banks have introduced a tool called "positive pay", which verifies each check presented to the bank against a file of written checks that is electronically transmitted from the customer to the bank. Funds are not relieved from the customer's account unless the check matches the information transmitted or until the customer approves the check. The cost of this tool is very low. A side benefit is that it allows the bank to prepare an outstanding checklist as a by-product of this service.

We recommend that, to the extent the City is not already utilizing this tool; you give consideration to implementing a positive pay system.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC

A handwritten signature in dark ink, reading "Joseph C. Heffernan". The signature is fluid and cursive, with the first name "Joseph" being the most prominent.

Joseph C. Heffernan, CPA